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Latam Daily: Final BCCh Hike?; Peru Palace Intrigue

- **Chile: BCCh expected to hike 50bps in what may be its final increase**
- **Mexico: Industrial production beats; Hacienda begins oil-hedging programme**
- **Peru: The heat is on, Castillo accused of corruption by Attorney General**

Markets are licking their wounds from the Bailey-led selloff yesterday that saw the BRL and MXN weaken by 2.1% and 0.6%, respectively, compared to a stronger performance in the COP and CLP—which came back strongly after the long weekend. The Chilean peso is again starting the day strongly, leaving behind the MXN in the Latam FX leaderboard with a 0.5% gain vs the Mexican peso's 0.2%. Crude oil prices are relatively unchanged, while iron ore and copper record declines of about 0.5% on the day. **It remains all eyes on the US's CPI release tomorrow, where continued increases in core inflation should motivate a significantly higher Fed policy rate.**

Chile's central bank is expected to hike by 50bps at its policy decision this evening, in what could well be its final rate increase of the cycle after a 100bps increase in September. In our latest [Latam Weekly](#), Aníbal Alarcón, Senior Economist out of Santiago, writes "after the reference rate reaches its maximum level at the October meeting, we think the BCCh will be forced to cut the rate quickly and aggressively upon the first signs of disinflation amid a negative output gap and an economy heading towards a full recession". Only one of the sixteen economists surveyed by Bloomberg anticipates a 75bps increase, while two see a 25bps hike. While most economists expect the BCCh to conclude its tightening cycle today, markets are tilted towards another 25bps increase at the final decision of the year, in December, amid depreciatory pressures and still very elevated inflation. The central bank's economist survey results published today put the median policy rate forecast at 11.25% at end-2022 and 8.50% eleven months from now, respectively. The end-2022 forecast matches our own with today's 50bps increase, although we see the bank's policy rate at 5% at the end of Q3-23 and 3.50% at the end of next year (see [latest forecasts](#)).

Industrial production in Mexico held unchanged m/m in August, slightly beating the median forecast calling for a 0.1% decline. This marks the weakest month-on-month performance in industry output since February, while recording a 3.9% y/y expansion from a 2.6% pace in July and handsomely beating the median projection of 2.9%. Slowing global growth should, however, lead to a continued deceleration in Mexican industrial production; September saw the softest expansion in manufacturing activity since March. **Mexico has reportedly begun its oil massive oil hedging programme for 2023 targeting a USD75/barrel price**, according to an article published by Bloomberg yesterday, providing stability for public finances—and perhaps resulting in significant returns to Hacienda if crude oil falls below target.

Peru's president Castillo is facing accusations of corruption and cronyism from the country's attorney general, see our Peru section below. The president spoke to international media last night, describing the accusations as a "coup d'état" attempt. The Peruvian sol has held up relatively well against the incessant strength of the USD thanks to the watchful eye of the country's central bank—but continued political anxiety could see the BCRP allow some more modest weakening in the currency if depreciatory pressures are too large to counter.

—Juan Manuel Herrera

PERU: THE HEAT IS ON, CASTILLO ACCUSED OF CORRUPTION BY ATTORNEY GENERAL

On Tuesday, Peru's Attorney General's office submitted to Congress a "Constitutional Accusation" against President Castillo, for criminal activity for cronyism and collusion to undertake criminal activity. Over the course of the day, prosecutors arrested a number of people close to President Castillo, mainly advisors, as part of anti-corruption investigations. Property searches were conducted as well, including the residence of President Castillo's sister, where his mother was residing and who was then hospitalized, reportedly afflicted by the search. Prosecuting attorneys also included six members of Congress belonging to the Acción Popular party in the corruption investigations for, presumably, having received benefits in exchange for their votes against Castillo's impeachment.

The Attorney General, Patricia Benavides, was very clear in her position regarding the constitutional accusation, stating in no uncertain terms that "to take advantage of public office for personal enrichment is criminal and abominable".

The dust hasn't settled enough on all these events to be able to judge the repercussions in full, especially considering that the decision by Attorney General Benavides to formulate a "Constitutional Accusation" against President Castillo is unprecedented. Secondly, **it is possible that the formulation could lead to presidential impeachment procedures in Congress. However, the Constitutional Accusation as formulated does not have clear legal or Constitutional support.** President Castillo's lawyers claimed that the accusations were not among the exemptions from presidential immunity (such as treason or closing Congress) as established by the Constitution.

Given this, it is conceivable that Congress could dismiss the Accusation. It may not be any easier for Congress to garner sufficient votes this time than in previous attempts to impeach the President. There is a caveat to this caveat, however. The inclusion in the investigation of the six Acción Popular Congress members could conceivably see them impeached and replaced by alternates. Such a change could eventually alter the balance of votes within Congress.

The decision, in the end, will depend on Congress. Even if Congress decides to dismiss the Constitutional Accusation, the relationships going forward between the State prosecuting attorneys and the government, are likely to remain in a heightened state of conflict.

—Guillermo Arbe

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